



Washington State Auditor's Office

Independence • Respect • Integrity

Financial Statements and Federal Single Audit Report

Northwest Educational Service District No. 189

Skagit County

For the period September 1, 2013 through August 31, 2014

Published May 28, 2015

Report No. 1014356





Washington State Auditor

May 28, 2015

Board of Directors
Northwest Educational Service District No. 189
Anacortes, Washington

Report on Financial Statements and Federal Single Audit

Please find attached our report on Northwest Educational Service District No. 189's financial statements and compliance with federal laws and regulations.

We are issuing this report in order to provide information on the District's financial condition.

Sincerely,

TROY KELLEY
STATE AUDITOR
OLYMPIA, WA

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FEDERAL SUMMARY

Northwest Educational Service District No. 189 Skagit County September 1, 2013 through August 31, 2014

The results of our audit of Northwest Educational Service District No. 189 are summarized below in accordance with U.S. Office of Management and Budget Circular A-133.

Financial Statements

An unmodified opinion was issued on the financial statements of each major fund and the aggregate remaining fund information.

Internal Control Over Financial Reporting:

- *Significant Deficiencies:* We reported no deficiencies in the design or operation of internal control over financial reporting that we consider to be significant deficiencies.
- *Material Weaknesses:* We identified no deficiencies that we consider to be material weaknesses.

We noted no instances of noncompliance that were material to the financial statements of the District.

Federal Awards

Internal Control Over Major Programs:

- *Significant Deficiencies:* We reported no deficiencies in the design or operation of internal control over major federal programs that we consider to be significant deficiencies.
- *Material Weaknesses:* We identified no deficiencies that we consider to be material weaknesses.

We issued an unmodified opinion on the District's compliance with requirements applicable to its major federal program.

We reported no findings that are required to be disclosed under section 510(a) of OMB Circular A-133.

Identification of Major Programs:

The following was a major program during the period under audit:

<u>CFDA No.</u>	<u>Program Title</u>
93.959	Block Grants for Prevention and Treatment of Substance Abuse

The dollar threshold used to distinguish between Type A and Type B programs, as prescribed by OMB Circular A-133, was \$300,000.

The District qualified as a low-risk auditee under OMB Circular A-133.

**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL
OVER FINANCIAL REPORTING AND ON COMPLIANCE AND
OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL
STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

**Northwest Educational Service District No. 189
Skagit County
September 1, 2013 through August 31, 2014**

Board of Directors

Northwest Educational Service District No. 189

Anacortes, Washington

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of each major fund and the aggregate remaining fund information of Northwest Educational Service District No. 189, Skagit County, Washington, as of and for the year ended August 31, 2014, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated April 30, 2015. The District has omitted the management's discussion and analysis information that accounting principles generally accepted in the United States of America has determined to supplement, although not required to be a part of, the basic financial statements. Our opinion on the basic financial statements is not affected by the missing information.

INTERNAL CONTROL OVER FINANCIAL REPORTING

In planning and performing our audit of the financial statements, we considered the District's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we do not express an opinion on the effectiveness of the District's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable

possibility that a material misstatement of the District's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

COMPLIANCE AND OTHER MATTERS

As part of obtaining reasonable assurance about whether the District's financial statements are free from material misstatement, we performed tests of the District's compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion.

The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

PURPOSE OF THIS REPORT

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the District's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control and compliance. Accordingly, this communication is not suitable for any other purpose. However, this report is a matter of public record and its distribution is not limited. It

also serves to disseminate information to the public as a reporting tool to help citizens assess government operations.

A handwritten signature in black ink, reading "Jan M. Jutte". The signature is fluid and cursive, with a long horizontal stroke extending from the end of the name.

JAN M. JUTTE, CPA, CGFM

ACTING STATE AUDITOR

OLYMPIA, WA

April 30, 2015

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR
EACH MAJOR FEDERAL PROGRAM AND ON INTERNAL
CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB
CIRCULAR A-133**

**Northwest Educational Service District No. 189
Skagit County
September 1, 2013 through August 31, 2014**

Board of Directors
Northwest Educational Service District No. 189
Anacortes, Washington

**REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL
PROGRAM**

We have audited the compliance of Northwest Educational Service District No. 189, Skagit County, Washington, with the types of compliance requirements described in the U.S. *Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that could have a direct and material effect on each of its major federal programs for the year ended August 31, 2014. The District's major federal programs are identified in the accompanying Federal Summary.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the District's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program

occurred. An audit includes examining, on a test basis, evidence about the District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. Our audit does not provide a legal determination on the District's compliance.

Opinion on Each Major Federal Program

In our opinion, the District complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended August 31, 2014.

REPORT ON INTERNAL CONTROL OVER COMPLIANCE

Management of the District is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the District's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program in order to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal

control that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

PURPOSE OF THIS REPORT

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose. However, this report is a matter of public record and its distribution is not limited. It also serves to disseminate information to the public as a reporting tool to help citizens assess government operations.

A handwritten signature in black ink, reading "Jan M. Jutte". The signature is fluid and cursive, with a long horizontal stroke extending to the right.

JAN M. JUTTE, CPA, CGFM
ACTING STATE AUDITOR
OLYMPIA, WA

April 30, 2015

INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

Northwest Educational Service District No. 189 Skagit County September 1, 2013 through August 31, 2014

Board of Directors
Northwest Educational Service District No. 189
Anacortes, Washington

REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying financial statements of each major fund and the aggregate remaining fund information of Northwest Educational Service District No. 189, Skagit County, Washington, as of and for the year ended August 31, 2014, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed on page 15.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial

statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the District's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of each major fund and the aggregate remaining fund information of Northwest Educational Service District No. 189, as of August 31, 2014, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Management has omitted the management's discussion and analysis information that governmental accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.

Supplementary and Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. This schedule is not a required part of the basic financial

statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

OTHER REPORTING REQUIRED BY GOVERNMENT AUDITING STANDARDS

In accordance with *Government Auditing Standards*, we have also issued our report dated April 30, 2015 on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.



JAN M. JUTTE, CPA, CGFM
ACTING STATE AUDITOR
OLYMPIA, WA

April 30, 2015

FINANCIAL SECTION

**Northwest Educational Service District No. 189
Skagit County
September 1, 2013 through August 31, 2014**

FINANCIAL STATEMENTS

Statement of Net Position – 2014
Statement of Revenues, Expenses and Changes in Net Position – 2014
Statement of Cash Flows – 2014
Statement of Fiduciary Net Position – 2014
Statement of Changes in Fiduciary Net Position – 2014
Notes to Financial Statements – 2014

SUPPLEMENTARY AND OTHER INFORMATION

Schedule of Expenditures of Federal Awards – 2014
Notes to the Schedule of Expenditures of Federal Awards – 2014

NORTHWEST EDUCATIONAL SERVICE DISTRICT 189
STATEMENT OF NET POSITION - ALL FUNDS
AUGUST 31, 2014

	NOTE REF	OPERATING	WORKERS COMPENSATION FUND	UNEMPLOYMENT FUND	TOTAL ALL FUNDS
ASSETS					
CURRENT ASSETS					
Cash and Cash Equivalents	Note 1	193,247.91	10,819.78	11,040.63	215,108.32
Investments	Note 2	3,212,300.00	138,000.00	3,152,400.00	6,502,700.00
Accounts Receivable (net of uncollectible allowance)	Note 1	1,475,517.70	25,849.36	16,629.83	1,517,996.89
Prepays	Note 1	24,098.71			24,098.71
Other Current Assets	Note 1		10.56	241.63	252.19
TOTAL CURRENT ASSETS		4,905,164.32	174,679.70	3,180,312.09	8,260,156.11
NONCURRENT ASSETS					
Investments	Note 2	6,000,000.00	750,000.00	4,000,000.00	10,750,000.00
Capital Assets	Note 3				
Land		909,421.00			909,421.00
Buildings		6,258,670.90			6,258,670.90
Equipment		851,093.92			851,093.92
Less: Accumulated Depreciation		(3,343,057.73)			(3,343,057.73)
Net Capital Assets		4,676,128.09	-	-	4,676,128.09
Net Cash/Investments Held for Compensated Absences		309,607.95			309,607.95
Investment in Joint Venture	Note 11	618,351.22			618,351.22
TOTAL NONCURRENT ASSETS		11,604,087.26	750,000.00	4,000,000.00	16,354,087.26
TOTAL ASSETS		16,509,251.58	924,679.70	7,180,312.09	24,614,243.37
DEFERRED OUTFLOWS OF RESOURCES					
	Note 1	-			-
LIABILITIES					
CURRENT LIABILITIES					
Accounts Payable	Note 1	341,595.92	2,450.72	1,776.83	345,823.47
Payroll, Deductions & Taxes Payable	Note 1	12,727.04			12,727.04
Compensated Absences - Current	Note 1	485,849.40			485,849.40
Capital Leases Payable - Current	Note 5	82,662.60			82,662.60
Claim Reserves - Current	Note 8	-			-
IBNR - Current			8,365.42	1,201,952.00	1,210,317.42
Open Claims - Current				76,086.79	76,086.79
Unallocated Loss Adjustment Expenses - Current			19,927.96	45,000.00	64,927.96
Future L&I Assessments			784.67		784.67
Unearned Revenue	Note 1	392,372.64			392,372.64
TOTAL CURRENT LIABILITIES		1,315,207.60	31,528.77	1,324,815.62	2,671,551.99
NONCURRENT LIABILITIES					
Claim Reserves - Noncurrent	Note 8	-			-
IBNR			409,905.51	329,197.00	739,102.51
Unallocated Loss Adjustment Expenses - noncurrent			84,956.04	45,000.00	129,956.04
Capital Leases Payable	Note 5	186,382.40			186,382.40
Future L&I Assessments			38,449.14	-	38,449.14
TOTAL NONCURRENT LIABILITIES		186,382.40	533,310.69	374,197.00	1,093,890.09
TOTAL LIABILITIES		1,501,590.00	564,839.46	1,699,012.62	3,765,442.08
DEFERRED INFLOWS OF RESOURCES					
	Note 1	-			-
NET POSITION					
Net Investment in Capital Assets		4,263,598.60	-	-	4,263,598.60
Restricted for Support Programs	Note 10	6,031,716.61			6,031,716.61
Restricted for Risk Pool Net Position		-	359,840.24	5,481,299.47	5,841,139.71
Restricted for Other Items		681,873.58			681,873.58
Restricted for Joint Venture	Note 11	618,351.22	-	-	618,351.22
Unrestricted		3,412,121.57	-		3,412,121.57
TOTAL NET POSITION		15,007,661.58	359,840.24	5,481,299.47	20,848,801.29

The accompanying notes are an integral part of the financial statements.

NORTHWEST EDUCATIONAL SERVICE DISTRICT 189
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET POSITION
FOR THE YEAR ENDED AUGUST 31, 2014

	OPERATING	WORKERS COMPENSATION FUND	UNEMPLOYMENT FUND	TOTAL ALL FUNDS
OPERATING REVENUES				
Local Sources	1,425,966.96			1,425,966.96
State Sources	2,265,993.24			2,265,993.24
Allotment	510,850.71			510,850.71
Federal Sources	1,729,960.72			1,729,960.72
Cooperative Programs	13,235,656.75			13,235,656.75
Other Programs	2,009,726.26			2,009,726.26
Member Assessments/Contributions			668,306.35	668,306.35
TOTAL OPERATING REVENUE	21,178,154.64	-	668,306.35	21,846,460.99
OPERATING EXPENSES				
General Operations and Administration	1,679,150.84		20,000.00	1,699,150.84
Instructional Support Programs	9,397,795.60			9,397,795.60
Non Instructional Support Programs	9,787,005.86			9,787,005.86
Incurred Loss/Loss Adjustment Expenses				
Paid on Current Losses			676,454.17	676,454.17
Change in Loss Reserves		3,325.11	-	3,325.11
Change in Unallocated Loss Reserves		2,734.47		2,734.47
Professional Fees		14,224.00		14,224.00
Depreciation/Depletion	232,579.13			232,579.13
Other Operating Expenses			22,831.52	22,831.52
TOTAL OPERATING EXPENSES	21,096,531.43	20,283.58	719,285.69	21,836,100.70
OPERATING INCOME (LOSS)	81,623.21	(20,283.58)	(50,979.34)	10,360.29
NONOPERATING REVENUES (EXPENSES)				
Interest and Investment Income	13,233.01	1,031.71	25,796.56	40,061.28
Interest Expense and Related Charges	(30,634.59)			(30,634.59)
Change in Joint Venture	7,503.44			7,503.44
Other Nonoperating Revenues	49,566.12	28,735.64		78,301.76
TOTAL NONOPERATING REVENUES (EXPENSES)	39,667.98	29,767.35	25,796.56	95,231.89
INCOME (LOSS) - INCREASE (DECREASE) IN NET POSITION	121,291.19	9,483.77	(25,182.78)	105,592.18
NET POSITION - BEGINNING BALANCE	14,886,370.39	350,356.47	5,506,482.25	20,743,209.11
NET POSITION - ENDING BALANCE	15,007,661.58	359,840.24	5,481,299.47	20,848,801.29

The accompanying notes are an integral part of the financial statements.

NORTHWEST EDUCATIONAL SERVICE DISTRICT 189
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED AUGUST 31, 2014

	OPERATING	WORKERS COMPENSATION FUND	UNEMPLOYMENT FUND	TOTAL ALL FUNDS
CASH FLOW FROM OPERATING ACTIVITIES				
Cash Received from Customers	17,815,729.27			17,815,729.27
Cash Received from State and Federal Sources	3,698,973.38			3,698,973.38
Cash Received from Members			707,896.95	707,896.95
Payments to Suppliers for Goods and Services	(7,160,705.00)	(12,561.37)		(7,173,266.37)
Payments to Employees for Services	(13,828,490.43)			(13,828,490.43)
Cash Paid for Benefits/Claims		(1,811.20)	(681,236.38)	(683,047.58)
Cash Paid for Labor and Industries Assessments		(174.43)		(174.43)
Cash Paid for Professional Services		(5,000.00)	(42,831.52)	(47,831.52)
Cash Paid for Other Operating Expense		(8,425.90)		(8,425.90)
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	525,507.22	(27,972.90)	(16,170.95)	481,363.37
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES				
Principal and Interest Payment on Notes	(37,065.78)			(37,065.78)
Other Noncapital Activities	49,437.91	2,886.28		52,324.19
NET CASH PROVIDED (USED) BY NONCAPITAL FINANCING ACTIVITIES	12,372.13	2,886.28	-	15,258.41
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES				
Purchase of Capital Assets	(544,959.58)			(544,959.58)
Principal and Interest Paid on Capital Debt	(56,965.90)			(56,965.90)
NET CASH PROVIDED (USED) BY CAPITAL AND RELATED FINANCING ACTIVITIES	(601,925.48)	-	-	(601,925.48)
CASH FLOWS FROM INVESTING ACTIVITIES				
Proceeds from Sales and Maturities of Investments	(4,488,272.93)	-	-	(4,488,272.93)
Purchase of Investments		(640,000.00)	(665,664.75)	(1,305,664.75)
Interest and Dividends Received	13,221.18	1,101.66	25,925.87	40,248.71
NET CASH PROVIDED (USED) BY INVESTING ACTIVITIES	(4,475,051.75)	(638,898.34)	(639,738.88)	(5,753,688.97)
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(4,539,097.88)	(663,984.96)	(655,909.83)	(5,858,992.67)
CASH AND CASH EQUIVALENTS - BEGINNING	7,944,645.79	812,804.74	3,819,350.46	12,576,800.99
CASH AND CASH EQUIVALENTS - ENDING	3,405,547.91	148,819.78	3,163,440.63	6,717,808.32
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES				
OPERATING NET INCOME	81,623.21	(20,283.58)	(50,979.34)	10,360.29
Adjustment to Reconcile Operating Income to Net Cash Provided (Used) by Operating Activities				
Depreciation Expense	232,579.13			232,579.13
Change in Assets and Liabilities				-
Receivables, Net	177,760.13	-	39,590.60	217,350.73
Prepays	(16,982.49)			(16,982.49)
Accounts and Other Payables	(62,144.89)	(6,913.32)		(69,058.21)
Accrued Expenses	29,692.13	-		29,692.13
Unearned Revenue	82,980.00			82,980.00
Other Changes				-
Claims Reserve-Prior Year		(776.00)		(776.00)
Claim Reserves			(4,782.21)	(4,782.21)
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	525,507.22	(27,972.90)	(16,170.95)	481,363.37

The accompanying notes are an integral part of the financial statements.

NORTHWEST EDUCATIONAL SERVICE DISTRICT 189
STATEMENT OF FIDUCIARY NET POSITION - FIDUCIARY FUNDS
AUGUST 31, 2014

	COMPENSATED ABSENCES
ASSETS	
Cash and Cash Equivalents	13,223.23
Investments	1,343,021.29
Interest Receivable	129.88
TOTAL ASSETS	1,356,374.40
LIABILITIES	
Accounts Payable	1,561.17
Program Refunds Payable to Participants	281,760.46
TOTAL LIABILITIES	283,321.63
NET POSITION	
Held in Trust for Benefits and Other Purposes	1,073,052.77
TOTAL NET POSITION	1,073,052.77

The accompanying notes are an integral part of the financial statements.

NORTHWEST EDUCATIONAL SERVICE DISTRICT 189
STATEMENT OF CHANGES IN FIDUCIARY NET POSITION - FIDUCIARY FUNDS
FOR THE YEAR ENDED AUGUST 31, 2014

	COMPENSATED ABSENCES
ADDITIONS	
Contributions	
Members	190,601.01
Total Contributions	190,601.01
Investment Earnings	
Interest	1,336.35
Total Investment Earnings	1,336.35
TOTAL ADDITIONS	191,937.36
DEDUCTIONS	
Distribution to Pool Participants	204,341.97
Refunds of Contributions	77,418.49
Administrative Expenses	1,336.35
Other Payments in Accordance with Trust Agreement	408.37
TOTAL DEDUCTIONS	283,505.18
CHANGE IN NET POSITION	(91,567.82)
NET POSITION - BEGINNING	1,164,620.59
NET POSITION - ENDING	1,073,052.77

The accompanying notes are an integral part of the financial statements.

NORTHWEST EDUCATIONAL SERVICE DISTRICT NO. 189

NOTES TO THE FINANCIAL STATEMENTS

FOR FISCAL YEAR ENDING AUGUST 31, 2014

Note 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of Northwest Educational Service District No. 189 ("the District") were developed under authority of the Office of Superintendent of Public Instruction. Except where noted as exceptions, the rules of generally accepted accounting principles (GAAP) are the basis for accounting and financial reporting in the District. The following summary of the more significant accounting policies is presented to assist the reader in interpreting the financial statements and other data in this report. These policies should be viewed as an integral part of the accompanying financial statements.

Reporting Entity

Northwest Educational Service District No. 189 is one of nine regional quasi-state agencies of the State of Washington organized pursuant to Title 28A *Revised Code of Washington* (RCW) for the purpose of (1) providing cooperative and informational services to local school districts; (2) assisting the state superintendent of public instruction and the state board of education in the performance of their respective statutory or constitutional duties; and (3) providing services to school districts to assure equal educational opportunities.

As required by generally accepted accounting principles, management has considered all potential component units in defining the reporting entity. Based on the standards set by Governmental Accounting Standards Board (GASB) Statement 14, there were no component units of the District. The District is a separate legal entity and is fiscally independent from all other units of government.

The District serves 35 school districts in Island, San Juan, Skagit, Snohomish and Whatcom counties. Oversight responsibility for the District's operations is vested with the Board of Directors who are elected by the school directors of the educational service district, one from each of nine educational service district board-member districts. Management of the District is appointed by and accountable to the Board of Directors. Fiscal responsibility, including budget authority, the power to operate cooperatives, set fees for services and issue debt consistent with the provisions of state statutes, rests with the Board. For financial reporting purposes, the District's financial statements include all fund entities that are controlled by the District's Board of Directors and managed by the administrative staff.

Basis of Accounting and Reporting

The District's accounting policies, as reflected in the accompanying financial statements, conform to the *Accounting Manual for Educational Service Districts*, prescribed by the Office of Superintendent of Public Instruction (OSPI). This manual allows for a practice that differs from generally accepted accounting principles in that the Management Discussion and Analysis is not required.

The financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*. Under this method, revenues are recorded when

earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

The District reports the following major proprietary funds:

The *Operating* fund is the District's primary fund. It accounts for all financial resources of the District that are not reported in the following funds.

The *Unemployment Compensation* fund accounts for the collection of premium from members of the fund and the related payment of associated claims and expenses.

The *Workers' Compensation* fund was created to account for workers' compensation payroll taxes collected from members, and the payment of associated claims, assessments and expenses; however, the fund discontinued offering coverage for its members on June 30, 1994. The fund is in the process of being liquidated. The liquidation may take many years as numerous claims are still open, and all claimants have the right to reopen any closed claim within seven years of closing said claim.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principle ongoing operations. Operating expenses for proprietary funds include the cost of providing services, administrative expenses, depreciation on capital assets, and gain/loss on sale of assets. Grants used to finance operations and expenses not related to the provision of District services are reported as non-operating revenues and expenses.

In addition, the District reports the following fund types:

Trust or agency funds are used to account for assets held by the district in a trustee or agency capacity.

The *Compensated Absences Pool Agency Fund* accounts for assets held by the district to provide a funding mechanism for members to pay for the cash-out of liabilities for compensated absences when employees of member districts leave service or retire.

The District issued an annual program report to OSPI in a separate format. The annual program report requires specific information and is not prepared on the basis of generally accepted accounting principles.

Assets, Liabilities, and Equity

Cash and Cash Equivalents

The Skagit County Treasurer is the ex-officio treasurer for the District. In this capacity, the county treasurer receives daily deposits and transacts investments on behalf of the District. On August 31, 2014, the treasurer was holding \$6,502,700.00 in short-term residual investments of surplus cash for the proprietary funds. This amount is classified on the statement of net position as current investments and considered part of cash and cash equivalents.

For the purposes of the statement of cash flows, the District considers all highly liquid investments (including restricted assets) with a maturity of three months or less when purchased to be cash and cash equivalents.

Deposits and Investments – See Note 2

Receivables

For the Operating fund, accounts and contracts receivable represent the value of goods and services provided and invoiced to clients at fiscal year-end. For remaining proprietary and agency funds, the amounts represent balances due from clients within thirty days of payroll dates.

Because the bulk of accounts receivable are due from other governmental entities and, as a result, have proven to be highly collectible, the District does not recognize an allowance for uncollectible accounts.

Interfund Receivables and Payables

Any interfund receivables or payables due between proprietary funds at the end of the year are for interfund services provided and used. These transactions are presented in the financial statements as revenues/expenses and receivables/payables.

Inventory

The District does not maintain material amounts of inventory.

Prepaid Items

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in the financial statements.

Capital Assets and Depreciation – See Note 3

Net Cash/Investments Held for Compensated Absences – See Note 11

Investment in Joint Venture – See Note 12

Deferred Outflows/Inflows of Resources

The District did not have any deferred Outflows or Inflows of Resources as of August 31, 2014.

Accounts Payable

This account reflects amounts owed to vendors for goods or services received but not yet paid as of August 31, 2014.

Accrued Salaries, Payroll Deductions and Taxes Payable

These accounts consist of accrued wages and accrued employee benefits.

Public Employees' Retirement System – See Note 6

Compensated Absences

Employees earn vacation leave at varying rates in accordance with District policy. Vacation is payable upon termination.

Employees earn sick leave at a rate of 12 days per year and may accumulate an unlimited sick leave balance. Under the provisions of Chapter 28A.400.210 RCW, sick leave accumulated by District employees is reimbursed at death or retirement at the rate of 1 day for each 4 days of accrued leave, limited to 180 accrued days. This chapter also provides for an annual buy-back of an amount up to the maximum annual accumulations of 12 days. For buy-back purposes, employees may accumulate such leave to a maximum of 192 days, including annual accumulation, as of December 31 of each year.

The balance reported in the statement of net position as of August 31, 2014, represents the aggregate amount of vacation and sick leave payable for all eligible employees of the District.

See Note 11 regarding the District's participation in a Compensated Absences Pool.

Capital Leases and Other Debt Payable – Current

The principal of capital leases and other contracts payable that is due within the year is recorded as a current liability. See Note 5 for the non-current amounts.

Unearned Revenue

Primarily resources received in advance from grantors in a voluntary non-exchange transaction in which allowable costs have not yet been incurred and other eligibility requirements other than a time requirement have not been met.

Long Term Debt – See Note 5

Note 2: DEPOSITS AND INVESTMENTS

All of the District's bank balances are insured by the Federal Depository Insurance Corporation (FDIC) or by collateral held in a multiple financial institution collateral pool administered by the Washington Public Deposit Protection Commission (PDPC).

Statutes authorize the District to invest in (1) securities, certificates, notes, bonds, short-term securities, or other obligations of the United States, and (2) deposits in any state bank or trust company, national banking association, stock savings bank, mutual savings bank, savings and loan association, and any branch bank engaged in banking in the state in accordance with RCW 30.04.300 if the institution has been approved by the Public Deposit Protection Commission to hold public deposits and has segregated eligible collateral having a value of not less than its maximum liability.

As of August 31, 2014, the District had the following investments:

Investment	Maturity	Fair Value
Local Government Investment Pool	\$8,214,700.00	\$8,214,700.00
Government Agency	8,250,000.00	8,256,794.82
Certificate of Deposit	2,500,000.00	2,500,000.00
Total Investments	\$18,964,700.00	\$18,971,494.82

Credit Risk

The Local Government Investment Pool (LGIP) is considered extremely low risk. The pool is operated in a manner consistent with the Securities and Exchange Commission's Rule 2a-7 of the Investment Company Act of 1940. Rule 2a-7 funds are limited to high quality obligations with limited maximum and average maturities, the effect of which is to minimize both market and credit risk. The pool's portfolio is made up of high quality, highly liquid securities, and its relatively short average maturity reduces the pool's price sensitivity to market interest rate fluctuations. The pool also has a strong degree of asset diversification to minimize risk and maintain adequate rates of return.

The pool is not insured or guaranteed by any government; therefore, maintenance of principal is not fully insured. The LGIP does not have a credit rating.

The pool is managed and operated by the Office of the State Treasurer for the State of Washington. The LGIP publishes an annual report, which is on the Internet at the Treasurer's Web site (<http://tre.wa.gov>). As of the most recent report date, fair value equaled amortized cost. It is the policy of the LGIP to permit participants to withdraw their investments on a daily basis; therefore, the District's investment balance in the pool is equal to fair value.

Interest Rate Risk

As a means of limiting its exposure to rising interest rates, securities purchased in the LGIP must have a final maturity, or weighted average life, no longer than five years. While the pool's market value is calculated on a monthly basis, unrealized gains and losses are not distributed to participants. The pool distributes earnings monthly using an amortized cost methodology.

Note 3: CAPITAL ASSETS

Capital assets, which include property, facilities, and large equipment, are capitalized at total acquisition cost, provided such cost exceeds \$50,000 and has an expected useful life of more than five years. Property, facilities, and large equipment that are purchased using Federal money are subject to capitalization if the acquisition cost is over \$5,000. Depreciation is recorded on all depreciable capital assets on a straight-line basis over the following estimated useful lives:

Asset	Years
Vehicles	5–10
Equipment	5–20
Buildings and structures	10–40
Land improvements	5–40

Major expenses for capital assets, including capital leases and major repairs that extend the useful life of an asset are capitalized. Assets under the capitalization threshold, maintenance, repairs, and minor renewals are accounted for as expenses when incurred.

Capital assets activity for the fiscal year ended August 31, 2014, was as follows:

	Beginning Balance 9/1/2013	Increases	Decreases	Ending Balance 8/31/2014
Capital assets not being depreciated:				
Land	\$909,421	\$0	\$0	\$909,421
Total capital assets not being depreciated	\$909,421	\$0	\$0	\$909,421
Depreciable capital assets:				
Buildings	\$5,713,711	\$544,960	\$0	\$6,258,671
Equipment	851,094	0	0	851,094
Total depreciable capital assets	\$6,564,805	\$544,960	\$0	\$7,109,765
Less accumulated depreciation for:				
Buildings	(\$2,418,848)	(\$206,395)	\$0	(\$2,625,243)
Equipment	(691,630)	(45,819)	(19,634)	(717,815)
Total accumulated depreciation	(\$3,110,478)	(\$252,214)	(\$19,634)	(\$3,343,058)
Total depreciable assets, net	\$3,454,327	\$292,746	(\$19,634)	\$3,766,707
Total assets, net	\$4,363,748	\$292,746	(\$19,634)	\$4,676,128

Note 4: SHORT-TERM DEBT

The District did not have any short term debt in the fiscal year ending August 31, 2014.

Note 5: LONG-TERM DEBT, LIABILITIES AND LEASES

Long-Term Debt

The District did not have general obligation bonds in the fiscal year ending August 31, 2014.

Operating Lease(s)

The District is committed under various leases for space and equipment. All leases are considered operating leases for accounting purposes because the District does not acquire interests in the property. Lease expenses for the year ended August 31, 2014, totaled \$253,585. Future minimum rental commitments for these leases are as follows:

Fiscal Year Ending August 31	Amount
2015	\$233,285
2016	237,554
2017	241,874

Capital Lease(s)

The District has entered into lease agreements for financing copiers and production printers. The lease agreements qualify as capital leases for accounting purposes; therefore, they have been recorded at the present value of their future minimum lease payments as of the inception date.

Assets acquired through capital leases are as follows:

Asset	Amount
Xerox Nuvera 120 DPSC/Bourg	\$242,934
Xerox X700 Color Digital Press	77,795
Less accumulated depreciation	(\$187,450)
Total	\$133,279

The future minimum lease obligation and the net present value of these minimum lease payments as of August 31, 2014, were as follows:

Fiscal Year Ending August 31	Amount
2015	\$64,593
2016	57,330
2017	47,162
2018	19,654
Total minimum lease payments	\$188,739
Less: Interest	26,210
Present Value of Minimum Lease Payments	\$162,529

Changes in Long-Term Liabilities

During the fiscal year ended August 31, 2014, the following changes occurred in long-term liabilities:

	Beginning Balance 9/1/2013	Additions	Reductions	Ending Balance 8/31/2014	Due Within One Year
Capital Leases	\$180,439	\$24,651	\$42,560	\$162,530	\$50,937
Other Debt	122,311	11,350	27,146	106,515	31,725
Total Long-Term Liabilities	\$302,750	\$36,001	\$69,706	\$269,045	\$82,662

Note 6: PENSION PLANS

Substantially all of the District's full-time and qualifying part-time employees participate in one of the following three contributory, multi-employer, cost-sharing statewide retirement systems managed by the State of Washington Department of Retirement Systems (DRS).

The Teachers' Retirement System (TRS) includes certificated staff of 295 public school district employers and other public employers. As of June 30, 2013, it includes 119,978 active, inactive, and retired members.

The Public Employees' Retirement System (PERS) includes non-certificated staff of state, county, local government, and 295 public school district employers. As of June 30, 2013, it includes 267,081 active, inactive, and retired members.

The School Employees' Retirement System (SERS) was established effective September 1, 2000, and includes non-certificated staff of 295 public school district employers. In addition, effective September 1, 2000, all members of PERS Plan 2 were switched to SERS Plan 2 and a

new SERS Plan 3 was established. PERS Plan 1 members remained in PERS. As of June 30, 2013, SERS includes 72,962 active, inactive, and retired members.

The employee and employer contribution rates for Plans 1 and 2 (for PERS, TRS, and SERS) are established each biennium by the Legislature. The employee contribution rate for Plan 2 is also determined by the Legislature. However, the employee contribution rate for Plan 1 is set by statute at 6 percent and does not vary from year to year. The employer and employee contribution rates for Plan 2 are developed by the state actuary to fully fund these plans. The employer rates for Plan 1 are not necessarily adequate to fully fund the level established by the Legislature. The methods used to determine the contribution requirements are established under Chapters 41.40 and 41.32 RCW for PERS and TRS, respectively.

Plan 3 (for TRS and SERS) is a combination defined benefit, defined contribution plan. Employer contribution rates are established each biennium by the Legislature. The state actuary calculates the rates, the economic revenue forecast council adopts the rates, and the Legislature enacts the rates for the defined benefit portion of the plan. Employee rates are established each biennium by the Legislature as well. These rates fund the defined contribution portion of the plan.

Employee contribution rates have been set at rates reflective of amounts that have been appropriated by the state Legislature.

The District contribution represents its full liability under both systems, except that future rates may be adjusted to meet the system needs.

General System Information by Internal Benefit Plans

Certificated public employees are members of TRS. Non-certificated public employees are members of either PERS or SERS.

Plan 1 (employment on or before September 30, 1977) members of TRS and PERS are eligible to retire with full benefits after 5 years of credited service and attainment of age 60 or after 25 years of credited service and attainment of age 55 or after 30 years of credited service.

Plan 2 (employment on or after October 1, 1977) members of TRS and SERS are eligible to retire with full benefits after 5 years of credited service and attainment of age 65 or after 20 years of credited service and attainment of age 55 with the benefit actuarially reduced from age 65.

Plan 3 (employment on or after July 1, 1996) members of TRS and Plan 3 (employment on or after September 1, 2000) members of SERS are eligible to retire with full benefits after 10 years of credited service and attainment of age 65 or after 10 years of credited service and attainment of age 55 with benefits actuarially reduced from age 65.

Average final compensation (AFC) of Plan 1 TRS and PERS members is the annual average of the greatest compensation earnable during any consecutive two-year period of service credit months for which service credit is allowed. For Plan 2 TRS and SERS members, it is the average compensation earnable of the highest consecutive sixty months of service credit months.

The retirement allowance of Plan 1 TRS and PERS members is the AFC multiplied by two percent per year of service capped at sixty percent. For Plan 2 TRS and SERS members it is the AFC multiplied by two percent per year of service with provision for a cost-of-living adjustment capped at three percent per year. For the defined benefit portion of Plan 3 TRS and SERS it is the AFC multiplied by one percent per year of service with provision for a cost-of-living adjustment.

Contributions

Employee contribution rates as of July 1, 2014:

Plan 1 TRS	6.00%	Plan 1 PERS	6.00%
Plan 2 TRS	4.96%	Plan 2 SERS	4.64%
Plan 3 TRS and SERS	5.00% (minimum), 15.00% (maximum)		

For Plan 3 TRS and SERS, rates adjusted based upon age may be chosen. The optional rates range begins at 5 percent and increase to a maximum of 15 percent.

Employer contribution rates as of July 1, 2014:

Plan 1 TRS	10.39%	Plan 1 PERS	9.21%
Plan 2 TRS	10.39%	Plan 2 SERS	9.82%
Plan 3 TRS	10.39%	Plan 3 SERS	9.82%

Under current law the employer must contribute 100 percent of the employer-required contribution. Employer required contribution in dollars (Participant information for all plans is as of August 31):

Plan	FY 2013-14
Plan 1 TRS	\$ 27,279.93
Plan 2 TRS	98,508.58
Plan 3 TRS	116,758.46
Plan 1 PERS	19,547.85
Plan 2 SERS	472,888.31
Plan 3 SERS	221,160.93

Historical trend information, showing TRS and PERS progress in accumulating sufficient assets to pay benefits when due, is presented in the State of Washington's June 30, 2014, comprehensive annual financial report. Refer to said report for detailed trend information. It is available from:

State of Washington
Office of Financial Management
300 Insurance Building
P.O. Box 43113
Olympia, WA 98504-3113

Note 7: OTHER POST EMPLOYMENT BENEFIT PLANS

457 Plan – Deferred Compensation Plan

District employees have the option of participating in an IRC, Section 457, deferred compensation plan administered by the District, a state retirement system, or another governmental entity. The plan assets and all related income are held in trust for the exclusive benefit of the participants and their beneficiaries.

The Washington State Department of Retirement Systems offers audited financial statements which provide more detailed information regarding the plan description, significant accounting policies and other information concerning the state's deferred compensation plan. The report may be obtained at <http://www.drs.wa.gov/administration/annual-report/cafr/>.

403(b) Plan – Tax Sheltered Annuity (TSA)

The District offers a tax deferred annuity plan for its employees. The plan permits participants to defer a portion of their salary until future years under the elective deferral (employee contribution method). The District complies with IRS regulations that require districts to have written plans to include participating investment companies, types of investments, loans, transfers, and various requirements. The plan is administered by CPI, (a third party administrator).

The plan assets are assets of District employees, not the District, and are therefore not reflected in these financial statements.

Note 8: SHARED RISK POOL DISCLOSURES

Workers' Compensation Insurance Trust

The Workers' Compensation Trust is organized pursuant to Title 51.14 RCW for the purpose of managing workers' compensation payroll taxes, employee claims, and safety programs. Membership is established by execution of an agreement between the District and each participating school district. The District is also a member of the Trust. Effective June 30, 1994, the Trust ceased coverage for claims coverage after that date. The Trust is operating in runoff mode since that date.

The Trust provides industrial injury accident insurance coverage for its membership for coverable events that occurred prior to June 30, 1994. Full funding was provided by its member participants' prior contributions. Responsibility is retained for the payment of claims within specified self-insured retention limits prior to the application of coverage provided by its excess insurance contracts. Insurance was acquired from unrelated underwriters. The Trust's per-occurrence retention limit ranges from \$100,000 for occurrences in 1984 to \$200,000 for occurrences thru June 30, 1994 and the annual aggregate retention ranges from \$764,607 to \$2,228,870 between 1984 and 1994. Since the Trust is a cooperative program, there is a joint liability among participating members.

For fiscal year 2014, there are 31 members in the pool including 30 participating school districts. A Board comprised of one designated representative from each participating member governs the Trust while a nine member Executive Board advises the Trust. The

Executive Board includes the District Superintendent and eight members elected by the member Board. The District is responsible for conducting the business affairs of the Trust. At August 31, 2014, the amount of liabilities totaled \$562,388.74. This liability is the District's best estimate based on available information. Changes in the reported liability since August 31, 2013, resulted in the following:

	Beginning Balance 9/1/2013	Current Year Claims and Changes in Estimates	Ending Balance 8/31/2014
Incurred but not Reported	\$418,271	\$0	\$418,271
Future L&I Assessments	39,234	0	39,234
Estimated Unallocated Loss Adjustment	105,660	(776)	104,884

Unemployment Compensation Insurance Fund

The Unemployment Compensation Pool is organized pursuant to Title 50.44 RCW for the purpose of managing unemployment compensation payroll taxes and employee claims. Membership is established by execution of an agreement between the District and each local school district. The District is also a member of the pool.

The pool provides unemployment compensation coverage for members of the pool arising from previous employees. The pool is fully funded by its member participants. Member districts pay a percentage of their employee's wages. These contributions plus investment earnings pay for unemployment claims and for the administration of the fund. There is provision that members can be additionally assessed if the Pool needs additional funding.

For fiscal year 2014, there are 29 members in the pool including 27 participating school districts. The pool is governed by a Cooperative Board, which is comprised of one designated representative from each participating member and a nine member Executive Board. Eight members elected by the Cooperative Board and the District Superintendent comprise the Executive Board. At August 31, 2014, the amount of liabilities totaled \$1,697,236. This liability is the District's best estimate based on available information. Changes in the reported liability since August 31, 2013, resulted in the following:

	Beginning Balance 9/1/2013	Current Year Claims and Changes in Estimates	Ending Balance 8/31/2014
Claims Reserves	\$1,702,018	(\$4,782)	\$1,697,236

Note 9: RISK MANAGEMENT

The District is a member of the Washington School Risk Management Pool. Chapter 48.62 RCW authorizes the governing body of any one or more governmental entities to form together into or join a pool or organization for the joint purchasing of insurance, and/or joint self-insuring, and/or joint hiring or contracting for risk management services to the same extent that they may individually purchase insurance, self-insure, or hire or contract for risk management services. An agreement to form a pooling arrangement was made pursuant to the provisions of Chapter 39.34 RCW, the Interlocal Cooperation Act. The Pool was formed in 1986 when educational service districts and school districts in the state of Washington joined together by signing an Interlocal Governmental Agreement to pool their self-insured losses and jointly purchase insurance and administrative services. Over 80 school and education service districts have joined the Pool

The Pool *allows members to jointly* purchase insurance coverage, establish a plan of self-insurance, and provide related services, such as risk management. The Pool provides the following coverages for its members: property, liability, vehicle, public official liability, crime, employment practices, machinery breakdown, and network security.

Members make an annual contribution to fund the Pool. The Pool acquires reinsurance from unrelated underwriters that are subject to a per-occurrence self-insured retention of \$1 million. Members are responsible for varied deductibles for both liability and property claims. Insurance carriers cover losses over \$1,000,000 to the maximum limits of each policy. Since the Pool is a cooperative program, there is a joint liability among the participating members.

The Pool also purchases additional excess crime coverage as well as required Public Official Bonds. The Commercial Crime coverage is subject to a per-occurrence deductible of \$1,000.

Members contract to remain in the Pool for a minimum of three years and must give notice two and one half years before terminating participation. The Interlocal Governmental Agreement is renewed automatically each year after the initial three-year. Even after termination, a member is still responsible for contributions to the Pool for any unresolved, unreported, and in-process claims for the period they were a signatory to the interlocal governmental agreement if the assets of the Pool were exhausted. The Pool is fully funded by its member participants.

The Pool is governed by a board of directors, which is comprised of one designated representative from each participating member. An executive board is elected at the annual meeting, and is responsible for overseeing the business affairs of the Pool. Financial statements and disclosures for the Pool can be obtained from the following address:

Washington Schools Risk Management Pool
P.O. Box 88700
Tukwila, WA 98138-2700

Note 10: NET POSITION, RESTRICTED

The District's statement of net position reports \$6,031,717 of restricted assets for Support Programs. The following lists the programs restricted by the Board of Directors:

Support Program	Amount
Instructional Resources	\$12,604.16

Special Education	1,584,952.80
Staff Development	1,072,687.32
Safe and Drug-Free Schools	88,593.51
Traffic Safety	211,512.94
Math & Science	486,887.80
Communication, Reading and Writing	8,832.34
Highly Capable	7,480.42
Early Childhood	156,618.47
Data Processing	2,010,937.96
Risk Management	146,410.53
Public Communication	10,278.51
Nursing Services	5,449.50
Fiscal Agent Services	80,774.96
Group Purchasing	25,432.61
Other Non-Instructional Support Programs	122,262.78
Total Restricted for Support Programs	\$6,031,716.61

Note 11: INVESTMENT IN JOINT VENTURE

Washington State Information Processing Cooperative

The District is a member of the Washington Information Processing Cooperative. The WSIPC Board of Directors consists of a member of each the nine Educational Service Districts in the state. ESD 123 is the fiscal agent of the joint venture and answers directly to the WSIPC Board of Directors in financial matters.

Condensed financial information of the joint venture for the fiscal year ended August 31, 2014, is as follows:

Condensed Financial Statements	Amount
Assets	
Current Assets	\$3,904,782
Non-Current Assets	2,330,513
Other Assets	0
Total Assets	\$6,235,295
Liabilities and Joint Venture Capital	
Current Liabilities	\$ 670,135
Investment in Joint Venture	5,565,160
Total Liabilities and Joint Venture Capital	\$6,235,295
Operating Revenues	\$19,417,813
Plus/ Minus Other Income/ Expenses (Net)	4,230
Less Operating Expenses	\$19,354,512
Net Income	\$67,531

The District's share of the total Investment in the Joint Venture is \$618,351. The District contributed \$0 and \$0 to the Joint Venture during 2013 and 2014, respectively. There were no distributions in 2013 and 2014.

Note 12: CONTINGENT LIABILITIES AND LITIGATIONS

The District has no known contingent liabilities or litigation of a significant nature.

Note 13: OTHER DISCLOSURES

Stewardship, Compliance, and Accountability

There have been no material violations of finance-related legal or contractual provisions.

**NORTHWEST EDUCATIONAL SERVICE DISTRICT # 189
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED AUGUST 31, 2014**

1	2	3	4	5	6	7	8	9
Federal Agency Name	Pass Through Agency	Federal Program Title	CFDA Number	Other Identification Number	From Direct Awards	From Pass Through Awards	Total	Footnote
US Department of Labor, Employment and Training	Workforce Development Council	WIA Youth Activities	17.259A	7601 / 13-NWESD-X-177-WOSY	-	14,602	14,602	
		Subtotal US Department of Labor, Employment and Training						
US Department of Education								
WA OSPI		Title I Grants to Local Education Agencies	84.010A	1697 / 227744		98,248		
WA OSPI		Title I Grants to Local Education Agencies	84.010A	5925 / 222627		116,851		
WA OSPI		Title I Grants to Local Education Agencies	84.010A	5981 / 222451		74,779		
WA OSPI		Title I State Agency Program for Neglected and Delinquent Children and Youth	84.013A	5913 / 232019		33,986		
WA OSPI		Special Education Grants to States	84.027A	1270 / 320217		267,463		6
WA OSPI		Special Education Grants to States	84.027A	1233 / 327365		210,060		5
WA OSPI		Special Education Preschool Grants	84.173A	1271 / 380267		35,579		
WA OSPI		Special Education Preschool Grants	84.173A	1234 / 387365		21,000		
ESD 112		Special Education-Grants for Infants and Families	84.181A	1275 / FRC-#7004000033		2,677		
WA Dept of Early Learning		Special Education-Grants for Infants and Families	84.181A	1235 / ITEIP-14-1051		18,309		4
WA OSPI		Mathematics and Science Partnerships	84.366B	2415 / 555359		180,318		
WA OSPI		Improving Teacher Quality State Grants	84.367A	1699 / 539047		62,407		7
WA OSPI		Race to the Top-Early Learning Challenge	84.412A	3454 / 619907		90,285		
Thrive by Five		Race to the Top-Early Learning Challenge	84.412A	3485 / 2013-CM-9 063		789		3
		Subtotal US Department of Education			-	1,212,751	1,212,751	
US Department of Health and Human Services								
		Substance Abuse and Mental Health Services Projects of Regional and National Significance	93.243	5960 / 1U79SM061131		8,266		
Washington State University		Child Care and Development Block Grant	93.575A	3485 / 2012-CMG-004-01		14,214		3
Thrive by Five		Block Grants for Prevention and Treatment of Substance Abuse	93.959A	2080 / 998157		534,396		2
WA OSPI		Affordable Care Act (ACA) Maternal, Infant, and Early Childhood Home Visiting Program	93.505	3485 / 123		15,000		3
Thrive by Five					-	571,876	571,876	
		Subtotal US Department of Health and Human Services			-	1,799,229	1,799,229	
		TOTAL FEDERAL AWARDS EXPENDED						

NORTHWEST EDUCATIONAL SERVICE DISTRICT NO. 189
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR FISCAL YEAR ENDING AUGUST 31, 2014

NOTE 1—BASIS OF ACCOUNTING

The Schedule of Expenditures of Federal Awards is prepared on the same basis of accounting as the Northwest Educational Service District's (District) financial statements. The District uses the accrual basis of accounting. Expenditures represent only the federally funded portions of the program. District records should be consulted to determine amounts expended or matched from non-federal sources.

NOTE 2—MATCHING CONTRIBUTIONS

The amounts shown as current year expenses represent only the *federal* grant portion of the program costs. Entire program costs, including the District's portion, may be more than shown.

NOTE 3—PROGRAM COSTS/MATCHING CONTRIBUTIONS

The amounts shown as current year expenses represent only the federal grant portion of the program costs. Entire program costs, including the private funding portion, may be more than shown.

NOTE 4—PROGRAM COSTS

The amount shown as expenditures includes program income of \$3,362 that was earned and spent.

NOTE 5—PROGRAM COSTS

The amount shown as expenditures includes program income of \$56,060 that was earned and spent.

NOTE 6—PROGRAM COSTS

The amount shown as expenditures includes program income of \$1,726 that was earned and spent.

NOTE 7—PROGRAM COSTS

The amount shown as expenditures includes program income of \$8,120 that was earned and spent.

ABOUT THE STATE AUDITOR'S OFFICE

The State Auditor's Office is established in the state's Constitution and is part of the executive branch of state government. The State Auditor is elected by the citizens of Washington and serves four-year terms.

We work with our audit clients and citizens to achieve our vision of government that works for citizens, by helping governments work better, cost less, deliver higher value, and earn greater public trust.

In fulfilling our mission to hold state and local governments accountable for the use of public resources, we also hold ourselves accountable by continually improving our audit quality and operational efficiency and developing highly engaged and committed employees.

As an elected agency, the State Auditor's Office has the independence necessary to objectively perform audits and investigations. Our audits are designed to comply with professional standards as well as to satisfy the requirements of federal, state, and local laws.

Our audits look at financial information and compliance with state, federal and local laws on the part of all local governments, including schools, and all state agencies, including institutions of higher education. In addition, we conduct performance audits of state agencies and local governments as well as [fraud](#), state [whistleblower](#) and [citizen hotline](#) investigations.

The results of our work are widely distributed through a variety of reports, which are available on our [website](#) and through our free, electronic [subscription](#) service.

We take our role as partners in accountability seriously, and provide training and technical assistance to governments, and have an extensive quality assurance program.

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